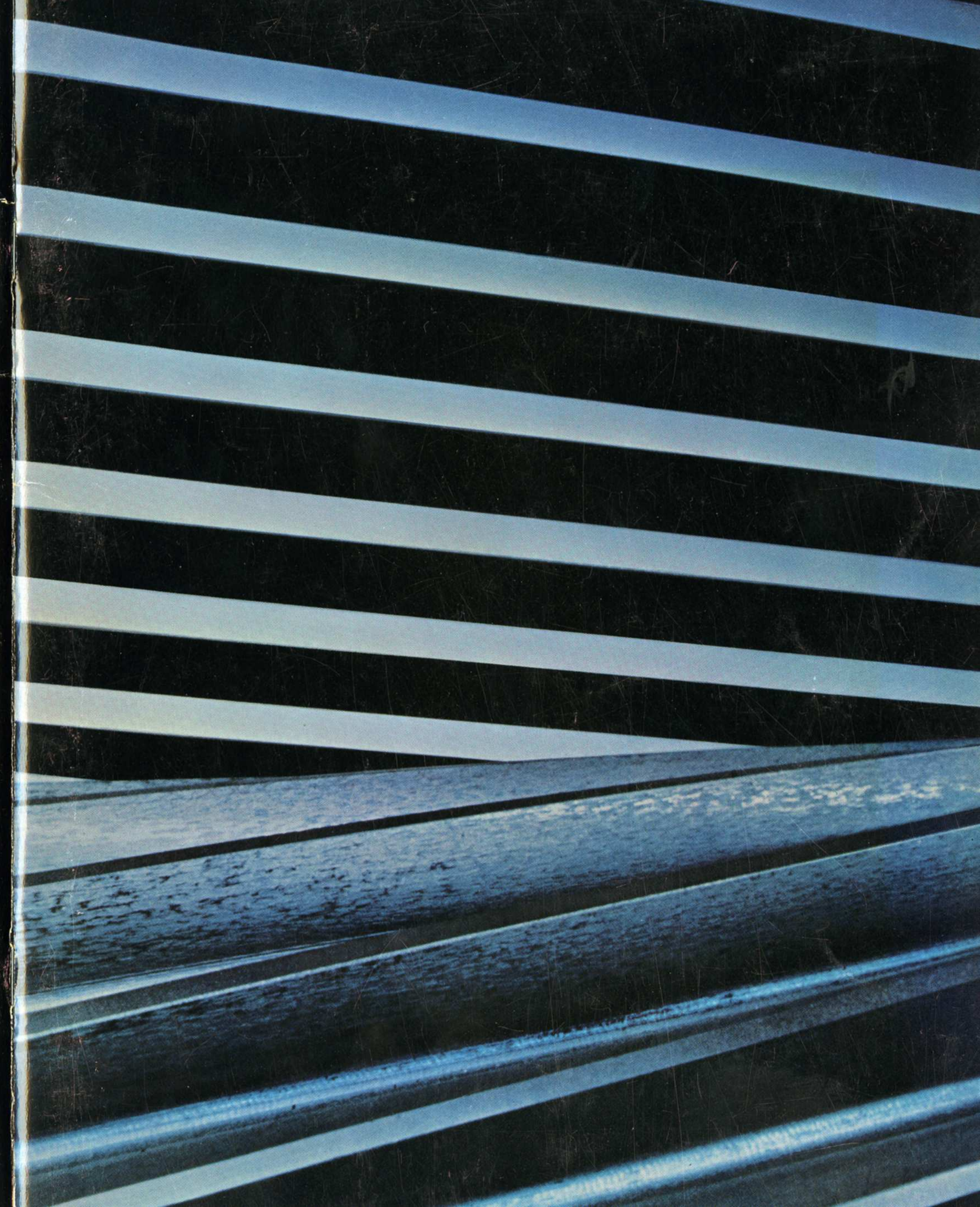
UTAH CONSTRUCTION & MINING CO.

UTAH CONSTRUCTION & MINING CO. ANNUAL REPORT 1970



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FINANCIAL HIGHLIGHTS

	1970	1969	1968
Net income	$ 30,273,265	$ 26,722,739[1]	$ 19,943,580
Depreciation and depletion	$ 6,814,700	$ 8,293,028	$ 6,737,168
Earnings per share	$ 2.27	$ 2.07	$ 1.55[2]
Cash dividends per share	$ 0.65	$ 0.557[2]	$ 0.483[2]
Stockholders' equity per share	$ 14.72	$ 10.03	$ 8.49[2]
Stockholders' equity	$207,495,707	$129,555,149	$109,606,290
Common shares outstanding (net of treasury shares)	14,100,015	12,916,942	12,905,910[2]
Number of shareholders	6,095	5,501	4,468

Note (1) Includes an extraordinary item of $1,844,000 after tax, or $0.14 a share.
Note (2) Adjusted to give effect to the February, 1969 three-for-one stock split effected in the form of a 200% stock dividend.

Our cover depicts meshing gears at Utah's just-completed uranium mill in the Shirley Basin area of Wyoming. It has a dual significance. The Shirley Basin uranium mine and mill comprise the latest in the series of new mining projects coming "on stream" in the broad program of expansion of our mining operations. The main gear (pictured here) drives an autogenous grinding mill, the first application of this technique to the hydrometallurgical processing of uranium ore.

TO OUR SHAREHOLDERS:

1970 was an excellent year for your company. There was progress on a broad front toward our objective of achieving an expanding stream of earnings—flowing out of a reservoir of long-term sales contracts for future minerals deliveries protected in substantial measure by cost escalation provisions.

Operations during the year are reviewed elsewhere in this report, but these developments were the highlights of 1970:

- Earnings were at record levels for the 6th consecutive year. 1970 net income was $30,273,265, 21.7% above the $24,878,448 recorded from normal operations in 1969. Earnings per share were $2.27 on a weighted average basis for the year just completed as compared with $1.93 in 1969.
- Dividends paid to shareholders were increased for the 20th consecutive year and amounted to 65 cents a share, up 16.8% from the 55⅔ cents paid in the preceding year.
- Stockholders' equity rose to $207,495,707, a gain of $78 million resulting from a combination of retained earnings, the conversion of subordinated debentures during the year, and the sale in Australia of a 10% equity in our subsidiary, Utah Development Company, which is engaged in mining activities in that country.
- The increase in our mineral sales backlog was the second largest ever recorded. New sales and escalation adjustments, less deliveries, added $630 million, raising the total backlog to $2.45 billion.

The company derives the greater part of its earnings from the mining of iron ore, steam coal, coking coal, uranium and copper. Profit levels from all of these activities improved over the prior year and our capacity to produce each of these minerals has been or is in the course of being substantially expanded.

Steam coal sales at our Navajo mine in 1970 were 5.5 million tons, up 78% over 1969, and the mine has been expanded so that it can produce in excess of 8 million tons annually.

Coking coal deliveries from the Queensland area were 3 million tons, up 80% over the prior year, and expansion plans call for installing capacity to achieve production of 13 million tons annually by the end of 1973.

Uranium shipments were 2,609,977 pounds, up 18.8% from the prior year. A program to double our output of uranium oxide concentrates will be completed early in 1971.

Iron ore shipments from the Mount Goldsworthy mine in Western Australia approximated 6 million tons, up 27% over 1969, and an increase in the production rate to 8 million tons by mid-1973 is planned. Shipments from the Marcona mine in Peru were also higher than in the prior year.

Copper production from Utah's Island Copper mine, now under development and construction, is scheduled to commence in 1972 with a mill capacity of approximately 33,000 tons of ore daily. Our 25% owned copper mining affiliate, Pima Mining Company, increased its profits over 1969 and is increasing its mill capacity from about 39,000 to 53,000 tons of ore daily.

Utah's mining expansion program for the period 1968-1973, which includes both the opening of new mines and the expansion of existing mines, involves capital investment in excess of $310 million, and of this total amount $125 million had been expended as of October 31, 1970. Necessary financing for completion of the entire program has been arranged.

The outlook for 1971 is clouded by more than the usual uncertainties. Our overseas sales were at a record volume during 1970 but there are indications that the pace of foreign economies may be slackening, possibly reflecting the depressed level of activity prevailing in the United States in the past year. Copper prices rose throughout most of 1970 but tumbled at the year end, and the prospects for copper earnings in 1971 will be affected both by price trends and by the outcome of scheduled labor negotiations. Profits from construction will be very substantially lower this year. Earnings will also be affected by the timing of the start-ups of our new Shirley Basin and Goonyella projects. At the end of 1970 shipping profits were showing unusual strength which was expected to continue in 1971. Weighing all of these factors we anticipate an increase in earnings in 1971 and a sharper rise after 1971 as the new mining projects and expansions still under development are completed and brought into production.

Yours sincerely,

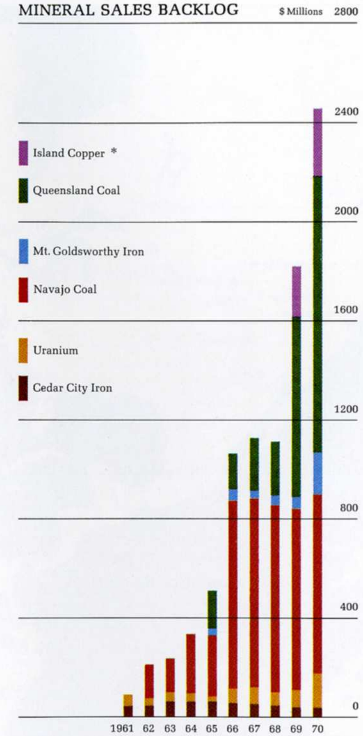
Marriner S. Eccles

Marriner S. Eccles
Chairman of the Board

E. W. Littlefield

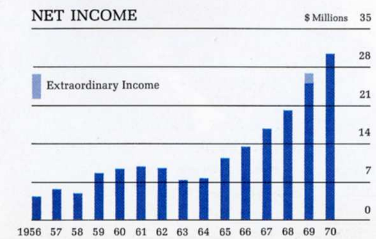
E. W. Littlefield
President and General Manager

MINERAL SALES BACKLOG

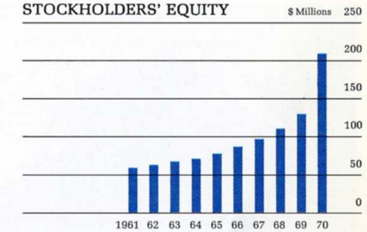


* For this chart, net revenues of 35¢ a pound of copper in concentrate have been assumed.

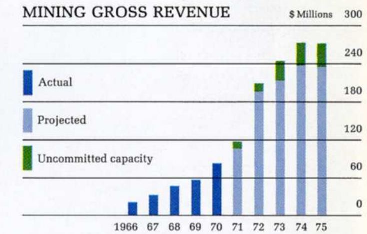
NET INCOME



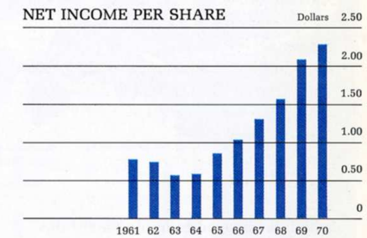
STOCKHOLDERS' EQUITY



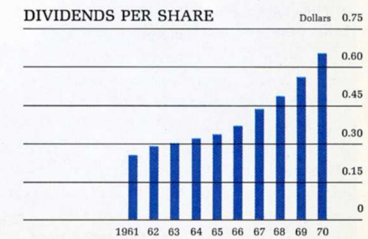
MINING GROSS REVENUE



NET INCOME PER SHARE



DIVIDENDS PER SHARE



Principal Mining Operations, Properties and Interests
(wholly owned except as noted)

Steam Coal
Navajo Mine, Fruitland, New Mexico

Reserves held for development
Craig, Colorado
Kanab, Utah

Coking Coal
Blackwater Mine, Queensland, Australia[1] [2]
Goonyella Mine, Queensland, Australia (85% interest[1]) [3]
Peak Downs Mine, Queensland, Australia (85% interest[1]) [3]

Reserves held for development
Queensland, Australia (85% interest[1])

Uranium
Lucky Mc Mine and Mill, Riverton, Wyoming
Shirley Basin Mine and Mill, Shirley Basin, Wyoming[3]

Iron Ore
Iron Springs Mine, Cedar City, Utah
Mount Goldsworthy Mine, Western Australia (33⅓% interest[1])

Reserves held for development
Dayton, Nevada (50% interest)

Affiliate
Marcona Corporation (46% interest)
Cia San Juan, S.A. (Ocean Shipping)
Marcona Mining Company, San Nicolas, Peru
Waverley Mining Company, Waverley, New Zealand

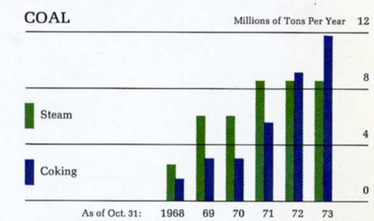
Copper
Island Copper Mine, Port Hardy, B.C., Canada[3]

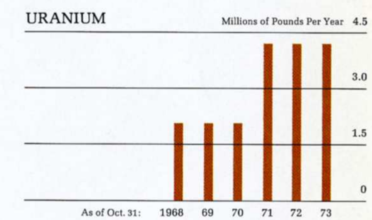
Affiliate
Pima Mining Company, Pima, Arizona (25% interest)

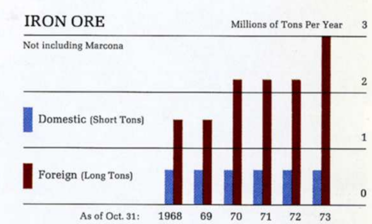
Utah and Utah Development Company maintain active and continuing programs of mineral exploration and development in the search for new mining opportunities and for the purpose of augmenting existing minerals reserves. Exploration activities are currently conducted in the Western United States, Canada, Australia and Africa, and a number of properties are under investigation.

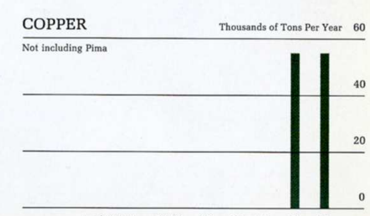
(1) Held by Utah Development Company, a 90%-owned subsidiary of Utah Construction & Mining Co.
(2) Expansion in progress as of October 31, 1970
(3) Development in progress as of October 31, 1970

The following charts depict the growth of Utah's mining production capacity, in the period 1968 — 1973.









Haul unit delivers 120 tons of coal to Navajo Mine Crushing and Blending Plant. Operations of conveyor complex are directed from control tower at left.

MINING OPERATIONS

Mining constitutes the principal business of Utah Construction & Mining Co. The company engages directly in the mining of steam coal, uranium and iron ore in the United States, and in 1972 will begin the production of copper concentrates from a new mine and concentrator under development in British Columbia, Canada.

In Australia interests in iron ore and coking coal mines are held by a 90%-owned subsidiary, Utah Development Company. During 1970, pursuant to a policy decision of the parent corporation, 10% of the stock of this subsidiary was issued to an Australian holding company, Utah Mining Australia Limited. An indirect participation in the growth and earnings of Utah Development Company was thereby made available to 13,000 Australian investors. This program was favorably received and has added a mutual feeling of partnership and good will to the already excellent relations prevailing between Utah and the Government and people of Australia with respect to our investment and operations in that country.

Iron ore is also mined in Peru by a subsidiary of our 46% owned affiliate, Marcona Corporation, which additionally engages in extensive ocean shipping operations through another subsidiary. A 25%-owned affiliate, Pima Mining Company, operates an open pit copper mine and concentrator near Tucson, Arizona.

Mining activities of Utah and its subsidiaries and affiliates provided the bulk of the company's revenues and earnings in 1970 and contributed the greater part of the advance in profits over the previous year. Our share of combined earnings from mining affiliates, however, was slightly lower than in 1969.

Utah and Utah Development Company have in progress a major program of expansion of mining operations which began in 1968 and in its present scope will be completed in 1973. The total new capital investment required to carry out the program as presently authorized is in excess of $310 million, and financing to supplement cash generated internally has been arranged to provide the necessary additional funds. The nature and extent of our expansions are described in the review of mining operations which follows.

Coal

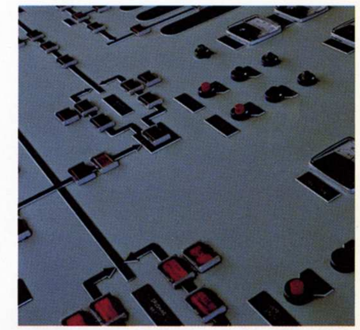
In 1970 coal displaced iron ore as the principal contributor to the company's operating profits.

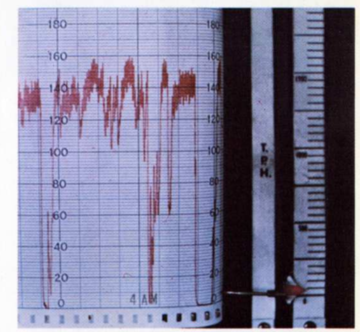
An increase in the production capacity of our Navajo Mine, located on the Navajo Reservation in New Mexico, was completed during the year as the initial project in our mining expansion program. Navajo's higher output of steam coal is geared to the rate of fuel consumption of the Four Corners Power Plant. Coal sales in 1970 were 5.5 million tons, more than 78% over 1969 sales of 3.1 million tons to meet the first full year's fuel requirements of generating unit No. 4 and a short period of the requirements of generating unit No. 5 which began commercial service in the third quarter of our fiscal year. The five units now in operation at the Four Corners Plant have a combined capacity of 2,085 megawatts. Based on our experience to date the enlarged plant in normal operation will burn about 8 million tons of coal annually. This tonnage will be supplied from our Navajo Mine under long-term requirements contracts containing cost escalation provisions. Approximately 30% of the total

Indicator lights glow as tower console automatically monitors plant operation.

Control tower chart recording coal quantities received.

Laboratory technician analyzes coal quality using calorimeter.





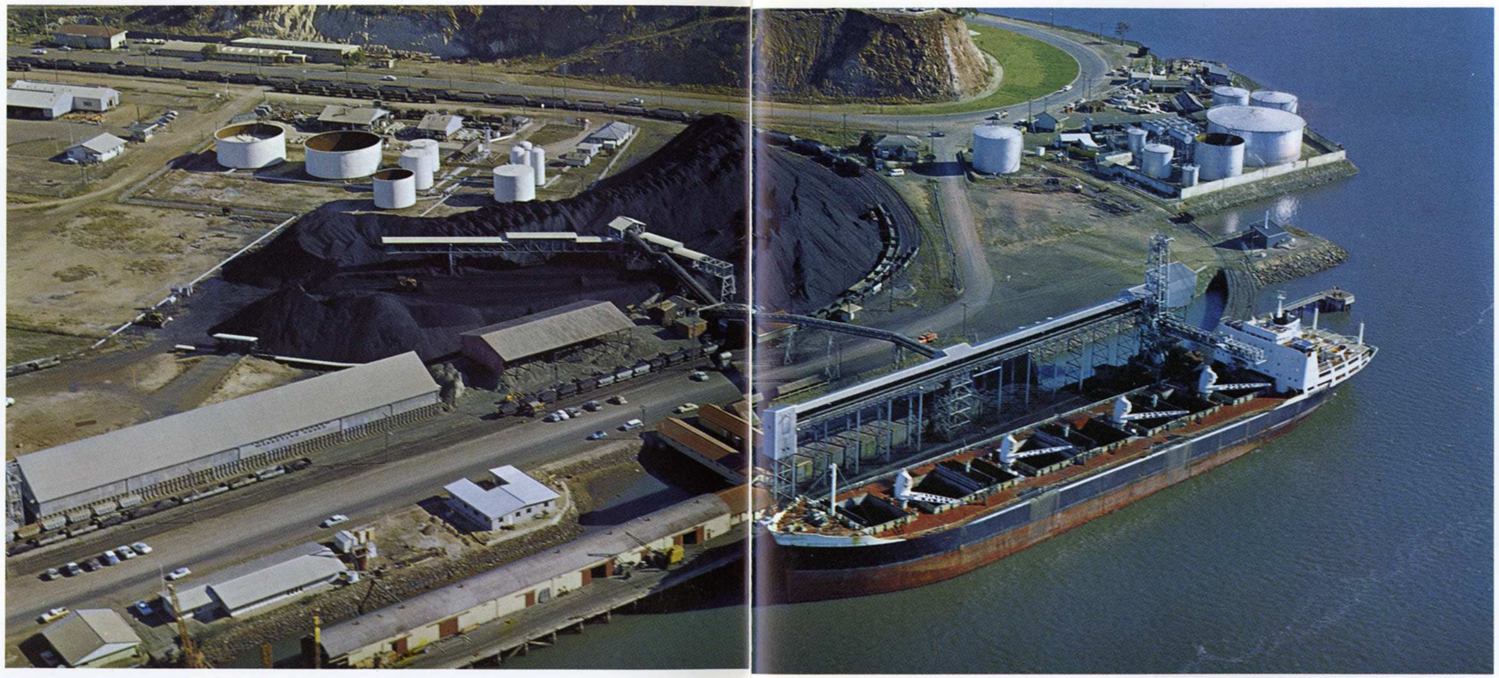
Navajo coal reserves of 1.1 billion tons is now committed to electric power generation, and the remainder is available for future development.

The market for coking coal has been strengthening and prospects are that over the long term coking coal will continue in short supply. Responsive to this growing demand shipments of washed coking coal from Utah Development Company's wholly owned Blackwater mine in Queensland, Australia rose 80% to 3 million long tons in 1970 as compared with 1.6 millions tons in 1969. Of the 1970 total, 2.5 million tons represented sales under long term contracts, and the balance was sold on a spot basis. Profitability of the Blackwater operation was sharply higher in 1970.

With the promising outlook for coking coal, and having adequate reserves available, a program to expand production of coking coal to 13 million tons per year by 1973 has been authorized and is already under way. This increased output capacity is being accomplished in three steps:

- Capacity of the Blackwater mine will be expanded from its present rated output of 3 million tons per year to a new level of 4 million tons. Subject to the conclusion of agreements being negotiated with government agencies for additional railing facilities and port installations, the increased output is expected to become operational by the end of 1972. The capital investment cost of this expansion is estimated at $19.1 million.
- Based on sales agreements for deliveries of 50.5 million tons of coking coal to Japanese buyers over a period of 13 years, a new mine, known as Goonyella, is being developed in central Queensland about 150 miles north of the Blackwater mine. Owned 85% by Utah Development Company and 15% by Mitsubishi Development Pty. Ltd., the Goonyella mine is scheduled to start up in mid-1971 and to produce 2.5 million tons in its first 12 months of operation, and 4 million tons annually thereafter.
- An additional 34.5 million tons of coking coal has been sold under contracts which became effective in 1970 and call for shipments from the Queensland reserves over a period of 12 years beginning in mid-1972. In order to meet this delivery schedule a second new mine, to be known as Peak Downs, is being developed in an area lying between the Blackwater and Goonyella sites and about 35 miles south of Goonyella. The Peak Downs mine, also owned 85% by Utah Development Company and 15% by Mitsubishi Development Pty. Ltd., is expected to begin operations in mid-1972. It is sized to produce 2 million tons of coking coal in its first year of operations, and 5 million tons annually thereafter which will include sufficient capacity to permit spot sales as well as to fulfil the long term contract commitments.

Mining installations and equipment, coal preparation plants and a townsite and deepwater port, together with railroad improvements and new railroad construction by the Queensland government to be financed by security advances from Utah Development Company, are required to bring each of these two mines into operation and to ship its output of coking coal to port and load it for export. The total capital investment required to bring both Goonyella and Peak Downs into production and to their full rated output capacities, including the cost of the townsite and port and other facilities


Ocean carrier receiving Blackwater coking coal at Gladstone Harbor, Queensland.

Train load-out at Blackwater Mine.


Approach trestle to pier being constructed at Hay Point, Queensland, for Goonyella and Peak Downs mines.


62 cubic yard dragline under erection at Goonyella; base for second unit at upper left.

of which they will make common use, is estimated at approximately $212.2 million. Utah Development Company's 85% share will amount to approximately $180.4 million. This is the largest project investment ever to have been committed by Utah or any of its subsidiaries.

Utah Development Company will manage and operate the Goonyella and Peak Downs mines as well as its 100% owned Blackwater mine. All contracts entered into for the sale of coking coal contain provisions for price adjustment to cover cost escalation.

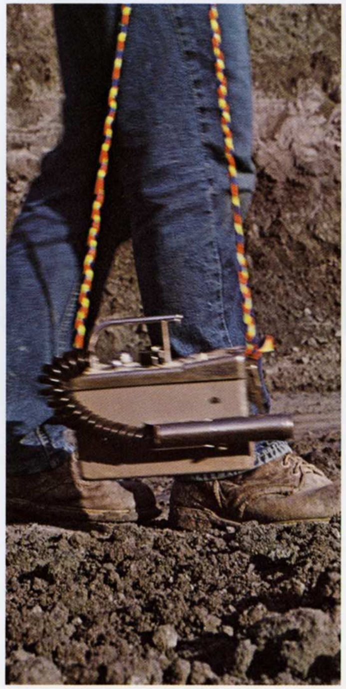
Under the provisions of its lease from the Queensland government Utah Development Company has the right to mine and export up to 100 million tons of coking coal from its Blackwater operation. A separate agreement entitles Utah Development Company and Mitsubishi, as co-owners, to mine and export from their Queensland mines a total of 150 million tons, plus an additional 150 million tons providing the second 150 million tons does not exceed 30% of the recoverable reserves in the area. Continuing investigations indicate that the reserve requirements will be satisfied and that all tonnages contemplated by the agreement can be exported.

Uranium

Profits from our Lucky Mc uranium mine and mill, which operated at capacity during the year, were significantly higher than in 1969. The increase was almost entirely due to a larger volume of shipments, partly taken from inventory stockpiles accumulated in earlier years. Price was not a factor in the increase; the average price per pound of U_3O_8 sold in 1970 was very close to the level of the prior year, being held down by the relatively low price fixed by the terms of

Ready to check for uranium ore exposed by removal of overburden at Lucky Mc.

Scintillometer checks ore quality, Lucky Mc.



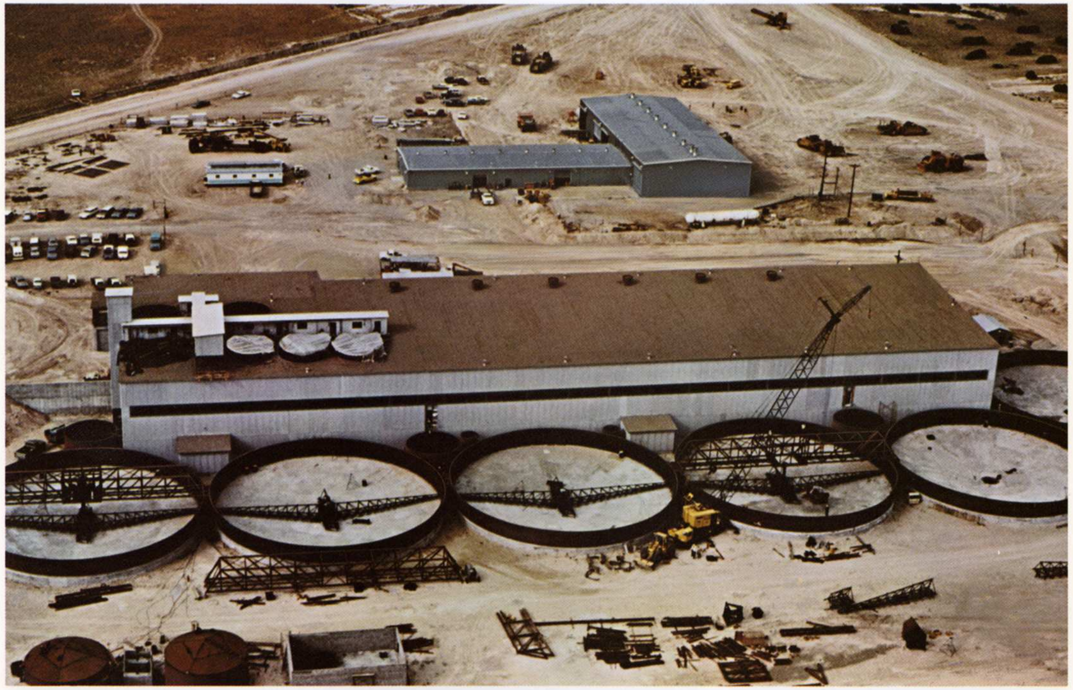
our contract with the United States for deliveries to the Atomic Energy Commission. As of the end of the fiscal year only 168,000 pounds remained to be delivered to the AEC by December 31, 1970 to fulfil final contract requirements, and an improvement in average selling price should be realized beginning in 1971.

An important addition in our current expansion is a new uranium mill located in the Shirley Basin area of Wyoming adjacent to a uranium mine which has been converted from solution mining methods to an open pit operation. We anticipate that it will be completed and ready to commence operations early in 1971. Involving a capital cost of approximately $20 million, this will be the second expansion project to come on stream since the program was inaugurated in 1968, enlargement of the Navajo mine having been the first. At its full rated output of 2.3 million pounds of U_3O_8 annually the Shirley Basin mill will effectively double our production of uranium oxide. Combined shipments from the Lucky Mc and Shirley Basin mills will exceed a rate of 4 million pounds yearly by early 1971.

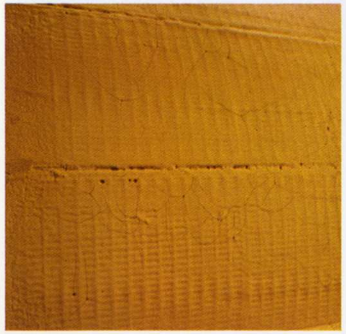
Under firm contracts and letters of intent virtually the entire output of these two installations for the five years beginning November 1, 1970, amounting to 21.6 million pounds of U_3O_8, has already been sold or committed in advance for delivery during the period.

At the end of our fiscal year (October 31) the total backlog of sales of uranium oxide for future deliveries, including sales under firm contracts and commitments under letters of intent, amounted to 24,332,000 pounds of which 24,164,000 pounds had been sold or committed to private industry for power generation. Subsequent to the end of the year all

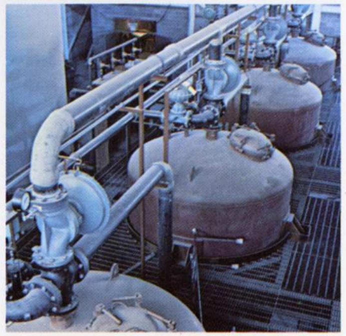
New uranium mill nears completion at Shirley Basin, Wyoming.



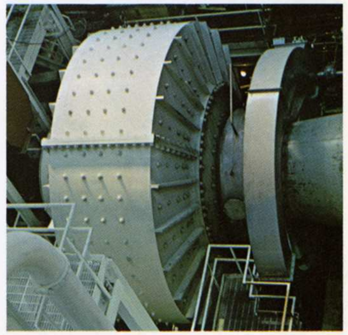
"Yellow Cake" filtering, Lucky Mc Mill.



Ion exchange circuit of advanced design, Shirley Basin Mill.



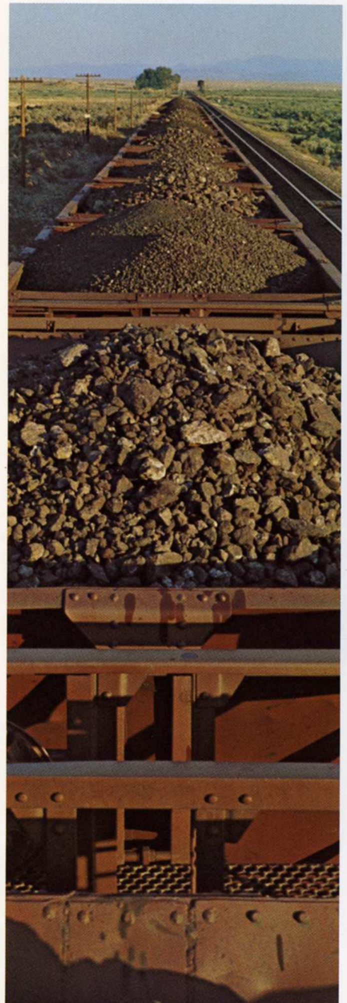
Semi-autogenous grinding mill, Shirley Basin.



Iron ore moves by trainload from Iron Springs Mine at Cedar City.

Assaying for impurities at Cedar City laboratory.

Part of ore separation process at Iron Springs Mine concentrator.



letters of intent except two had been replaced by firm contracts, and it is expected that these letters, covering 2,576,000 pounds of U_3O_8, will be converted to definitive contract terms early in 1971.

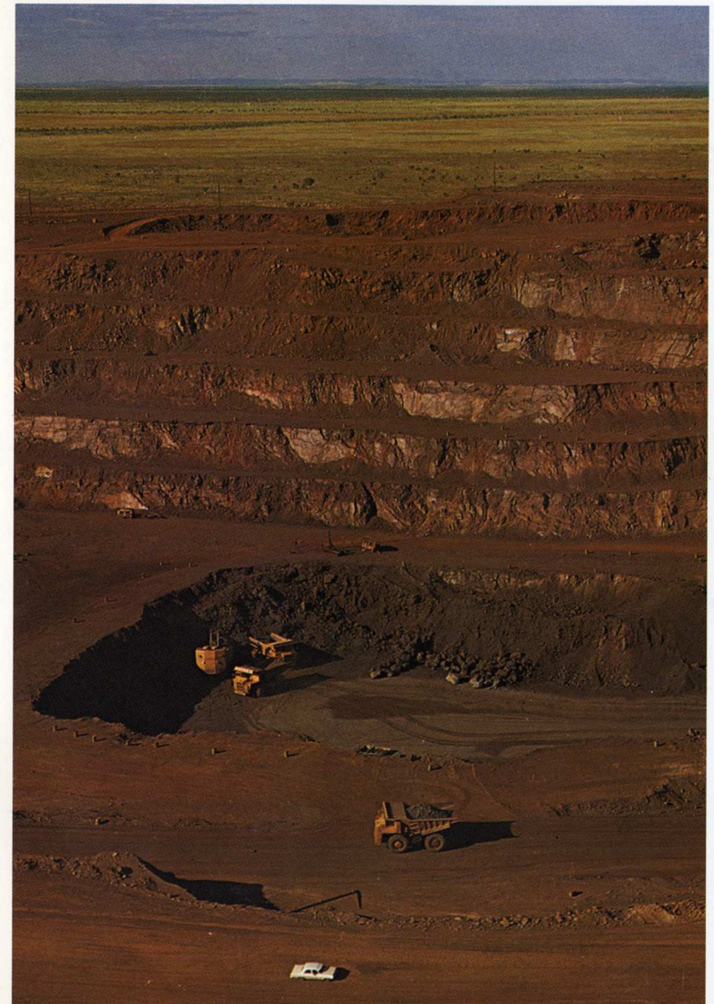
Sales for forward deliveries after November 1, 1975 amount to more than 2.7 million pounds, and we believe that after that date market demand for uranium oxide will be stronger and prices will rise as its use as fuel increases.

Iron Ore

Profits from our iron ore activities and interests continued at satisfactory levels and recorded an increase for the year. Results of domestic operations, including both production from the company's own Iron Springs Mine near Cedar City, Utah and contract mining of a nearby deposit for CF&I Steel Corporation, were substantially unchanged from the prior year. Shipments from Utah's mine to United States Steel Corporation's Geneva Works near Provo, Utah amounted to approximately 600,000 tons under a contract which runs until June 30, 1975, subject to possible extension. Operations at CF&I's Comstock mine, consisting of stripping, mining and ore deliveries as directed by the owner, were maintained under a contract which extends to August 31, 1974.

Substantially higher profits, resulting from a sharp rise in iron ore shipments, were recorded at the Mount Goldsworthy mine in Western Australia. Utah Development Company, Consolidated Gold Fields Australia Limited and Cyprus Mines Corporation each own a one-third interest in this project. Approximately 6 million tons of ore of about 64% Fe grade was mined and shipped to the Japanese steel industry, chiefly under

Mount Goldsworthy open pit mine in Western Australia dwarfs automobile in foreground.



contracts but partly on a spot sales basis. This volume amounts to 27% more than the 4.8 million tons shipped in 1969, and reflects the increase in mining capacity which was made effective in April 1970.

Three new long term contracts for the sale of 52.6 million tons of iron ore were concluded in 1970 by the Mount Goldsworthy co-owners for deliveries to Japanese buyers over a period of 10 years.

The contracts have a total value of approximately $430 million, of which Utah Development Company's one-third share amounts to $143 million.

To provide for these increased commitments, further expansion of the Mount Goldsworthy project has been authorized by the co-owners. Reserves at Shay Gap and Kennedy Gap, located about 40 miles to the east, are to be brought into production in sequence at a later date. The existing railroad, now running only to the Mount Goldsworthy mine, will be extended to these mines, and other supporting installations will be provided. By this expansion the rate of production of iron ore from reserves controlled by the Mount Goldsworthy co-owners will be increased to 8 million tons annually by mid-1973. The Utah group's share of the capital cost involved is estimated at $21 million.

Marcona Corporation, an affiliate in which Utah Construction & Mining Co. and Cyprus Mines Corporation each own 46% of the equity interest and 50% of the voting stock, engages through subsidiaries in the mining and beneficiation of iron ore from deposits in Peru and carries on shipping operations through a fleet of large ocean carriers, some owned and some chartered. Notwithstanding shipments of iron ore were higher than in 1969 there was a moderate

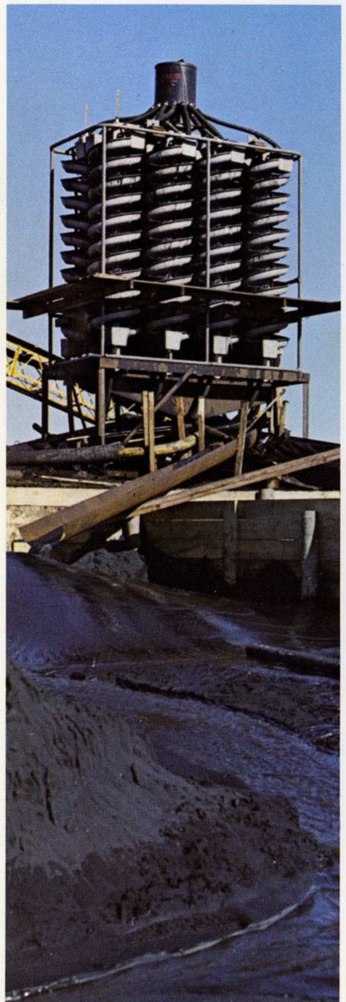
Spiral gravity concentrator, part of pilot plant operation at iron sands deposit in New Zealand.

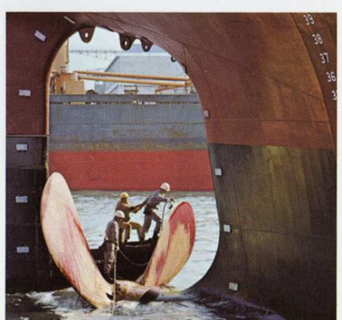
World's first ore-slurry-oil carrier, 52,000 dead-weight ton *Marconaflo Merchant*, leaving Japanese shipyard after undergoing conversion.

High grade iron ore pellets await shipment from Marcona's stockpiles in Peru to Japanese buyers.

First paint coat being applied to giant controllable-pitch propeller on *S. S. San Juan Vanguard*, one of Marcona's three new 130,000 dwt ore-oil carriers.

Iron ore slurry being discharged by Marconaflo process from slurry carrier, in background, into receiving pond at Oregon Steel Mill.





decline in profits from Marcona's mining operations in Peru in 1970 because of higher operating costs and increased provisions for Peruvian income taxes. Shipping profits improved, however, as some of the combination ore-oil vessels were diverted to take advantage of rising charter rates in the oil trades and were replaced with single purpose vessels chartered at lower rates for the movement of ore.

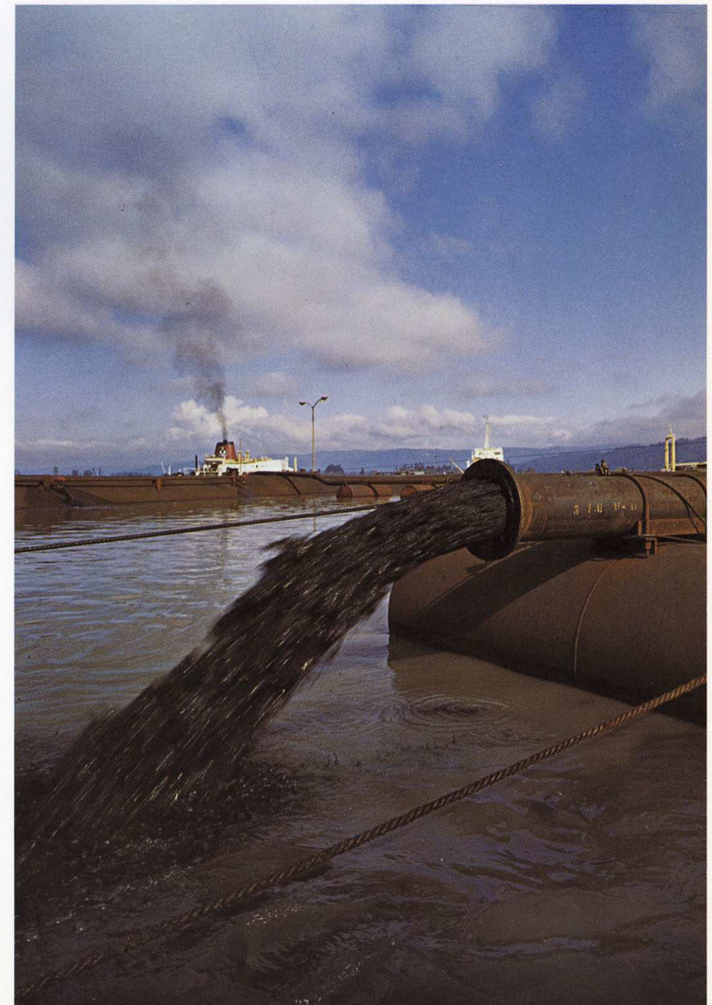
Utah's share of Marcona's earnings during our 1970 fiscal year amounted to $6,732,000 after distribution taxes, as compared with $8,004,000 in 1969. A portion of the decline is attributable to current losses and reserves established against possible future losses by a Marcona affiliate engaged in salt mining in Chile.

In 1970 the Marcona group initiated a project to produce 2 million tons of iron concentrates annually from extensive iron sands deposits on the west coast of New Zealand. A Marcona subsidiary, Waverley Mining Company, owns a 75% interest in the project and the remaining 25% is held by a New Zealand firm as co-owner. Operations, consisting of the hydraulic dredging and magnetic separation of the iron-bearing material, are scheduled to begin in mid-1971. Development of the project was made feasible by the conclusion of contracts valued at $89 million for deliveries of 11,060,000 tons of concentrates over a 10 year period. The surplus output capacity makes allowance for spot sales in addition to the fulfilment of contract requirements. Total investment cost is estimated at $12.8 million.

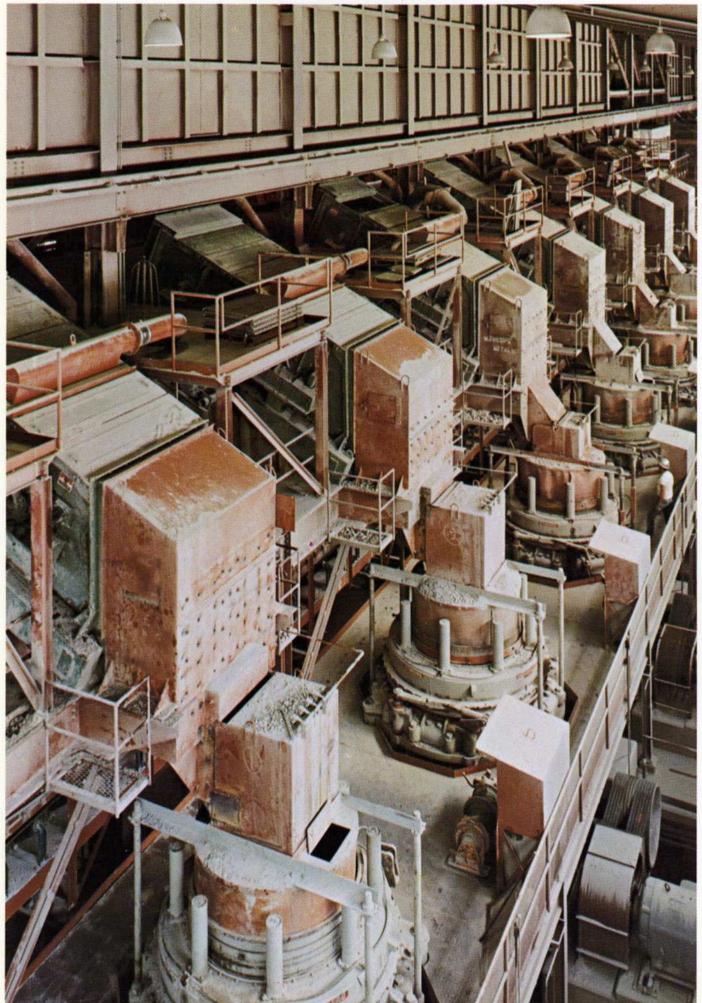
A second major sales contract entered into during the year by the Marcona group calls for 10 million tons of iron ore concentrates to be produced from the Peruvian mines and processing plant and delivered to Nippon Steel Company over a 10 year period. A portion of this tonnage, yet to be determined by the parties under the contract provisions, represents a substitution of concentrates for standard sinter feed sold under earlier contracts but not yet shipped. Involving a total sales price approximating $113 million, the agreement has special significance because it represents the first major long-term purchase of iron ore concentrates to be delivered in the form of slurry utilizing the Marconaflo method of materials handling which was developed by the Marcona organization. The Marconaflo system is also to be employed in the deliveries of concentrates from the New Zealand project referred to above.

Although recent political developments in Peru have not been reassuring to foreign investors generally, the iron ore mining and beneficiation operations conducted in that country by Marcona Mining Company have not been adversely affected. The present government of Peru has begun a program of broad economic and social change, and until its direction and implications are clarified the introduction of new and essential foreign venture capital will be retarded. Peruvian officials have declared, however, that it is the intention of the government to provide a hospitable business environment in order to attract investment from abroad.

Less than half of Marcona's 1970 earnings was attributable to the mining of Peruvian iron ore. The remainder was derived principally from increasingly profitable ocean shipping operations. At the year end the outlook appeared favorable for continuing strength in charter rates so long as existing conditions



Tertiary crushers at Pima Mining Company's concentrator.



prevail in the charter market.

Marcona's owned fleet, operated by its subsidiary San Juan Carriers, Ltd., now includes 10 vessels aggregating 890,000 deadweight tons. Nine of the ships are combination ore/oil carriers and the cargo capabilities of the tenth, the 106,000 dwt ore carrier MS *San Juan Exporter,* will be increased during 1971 as the ship is scheduled for expansion to 141,000 dwt and to be equipped to load and discharge slurry by the Marconaflo system.

The long-term upward trend in the world-wide demand for iron ore, particularly as pellets and concentrates and in other technologically sophisticated forms, suggests that the mining, processing, sale and shipping of iron ore will continue to be an important factor in your company's profitability.

Copper

Utah's interest in copper production during 1970 consisted of its 25% equity in Pima Mining Company, operator of an open pit copper mine and concentrator located near Tucson, Arizona and having the capacity to process about 39,000 tons of ore per day. Further expansion to a daily capacity of 53,000 tons is under way and should be completed by the end of the calendar year 1971. Cyprus Mines Corporation and Union Oil Company own interests of 50% and 25%, respectively, in Pima Mining Company.

The company's share of Pima's earnings, after provision for distribution taxes, was $4,907,000, 18% higher than for the previous year. Favorable copper prices were primarily responsible for this marked improvement which occurred despite the fact that shipments were lower than in 1969. The 1969 volume of shipments with which current operations

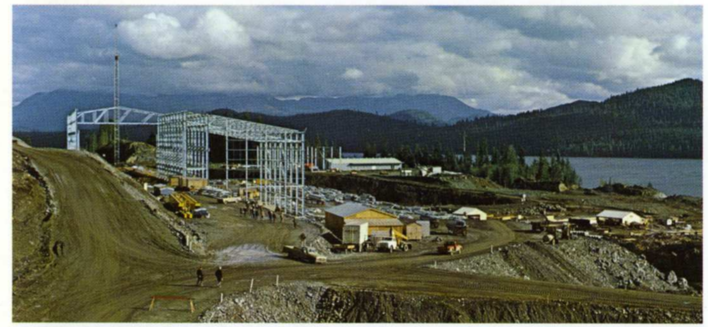
Island Copper concentrator construction, Vancouver Island.

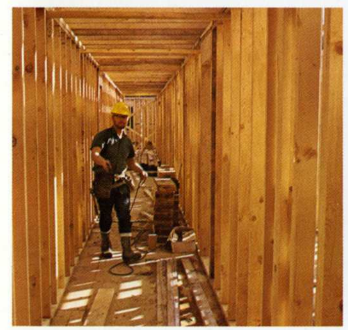
Concrete form work keeps pace with plant construction schedule.

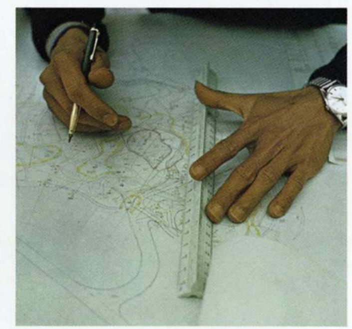
Workmen need steady footing on the mill concentrator steel framework.

Detailed mine planning at Island Copper engineering office.

40 ton segment of 32-foot diameter autogenous grinding mill for Island Copper being unloaded at Vancouver.







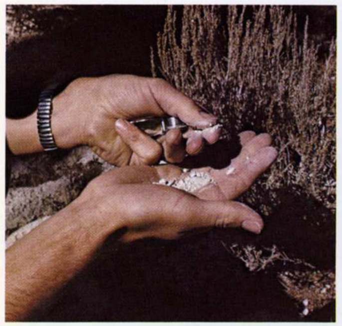
are compared was larger than normal, however, because it included sales of concentrates produced during 1968 but not shipped in that year when smelters were closed down due to prolonged strikes. As of the year end copper prices had weakened substantially and this trend is expected to continue into the new year. The outlook for 1971 has further uncertainty because of scheduled negotiations of new labor contracts and the question as to whether agreements can be reached without work stoppages.

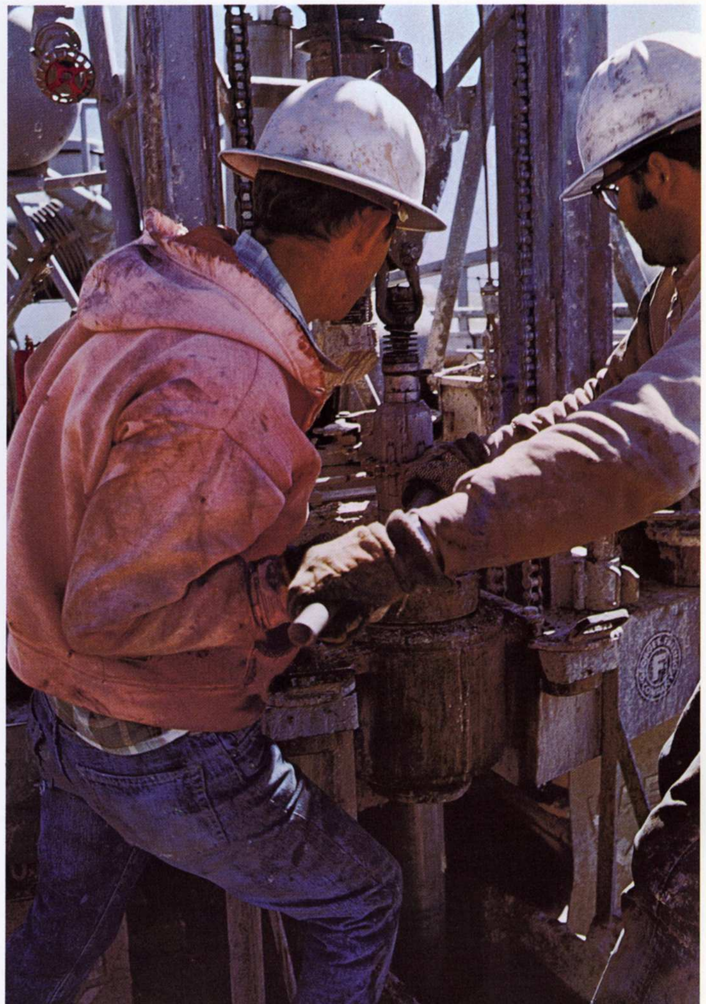
Early in the fiscal year 1972 Utah expects to commence production and shipments of copper concentrates from its Island Copper mine, now under development and construction at the northern end of Vancouver Island in British Columbia, Canada. The Island Copper mine and concentrator comprise one of the four entirely new mining projects in our current expansion program and represent a diversification in the minerals mined by Utah for its own account. The flotation plant, or concentrator, will have a capacity of 33,000 tons of ore daily. The mine and concentrator will have an annual output capacity of approximately 230,000 tons of copper concentrate containing about 55,000 tons of copper metal and 1,800 tons of molybdenum concentrate. Existing smelting contracts with Mitsui Mining & Smelting Co. and with Mitsubishi Shoji Kaisha Ltd. and Dowa Mining Company Ltd., over a period of 5 years beginning in 1971, call for deliveries of between 84% and 100% of the total output of concentrate, depending on Utah's option as to the quantity above 84%; and the contract with Mitsui, which continues for an additional 5 years, will require from 56% to 63% of total production, also depending on Utah's option, during the 1976-

Geologist makes field examination of drill cuttings.

Core logging at drill site.

Manning drill rig requires special skills.





Mineral samples are examined microscopically in laboratory at Palo Alto, California.

Drill cores await analysis and beneficiation tests.

Sample preparation area in Palo Alto laboratory.

Froth containing copper concentrate accumulating on surface of test cell.

X-ray emission spectrophotometer equipment for analysis of elements in ore specimens.

Test samples are carefully weighed and measured.

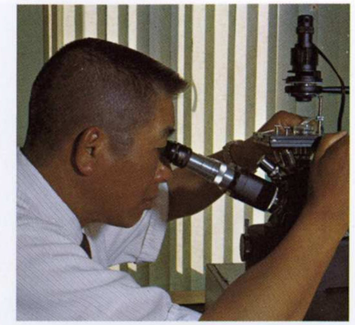
1981 period. The copper metal produced from the concentrates will be purchased by the smelting companies at prices based on London Metal Exchange prices, less normal charges for smelting and refining. Insurance and freight costs are to be borne by Utah.

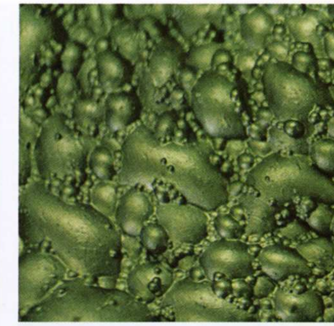
Capital investment of approximately $60 million is required to bring the Island Copper project into production. In addition to the mining and milling installations a new community will be developed as a major addition to the nearby town of Port Hardy to house many of the 500 employees who will man these operations.

Exploration

The ongoing search for new mineral deposits and additional mineral reserves is a vital function to which your company is increasingly committing both funds and the energies and talents of its geologists and other technical staff. Our physical resources consist primarily of the reserves of ores and fossil fuels which we control; and the outlook for the future profitability and expansion of our mining operations is directly keyed to our success in locating new sources of minerals, developing them economically and marketing them effectively.

Your company's management is dedicated to a vigorous and continuing program of mineral exploration. We believe that in order to grow and prosper Utah must discover more reserves than it depletes in production. This search is and will be directed toward minerals having the prospects of growing use and demand in our economy. Adherence to these policies has made possible the exceptional growth rate which Utah Construction & Mining Co. has enjoyed in recent years.





CONSTRUCTION

Hydraulic dredge *Alameda* deepening entrance channel at Port Hedland, Western Australia.

Dredge *Franciscan* in harbor improvement and land reclamation work at Long Beach, California. At left is former liner *Queen Mary*.

Derrick barge *Martinez* re-positioning discharge line of *Franciscan* at Long Beach.

Our remaining construction operations, consisting of dredging and commercial construction, produced excellent results substantially exceeding the earnings from these activities in the preceding year. 1970 earnings approached the level of the entire year 1969 including all construction operations prior to the sale of our heavy construction division as of April 30, 1969, but excluding the extraordinary gain resulting from the sale.

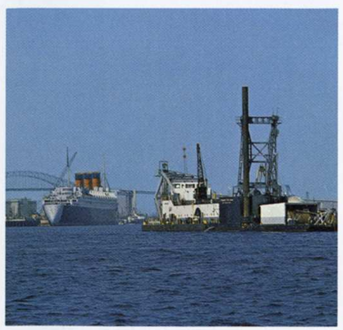
Utah experienced an exceptional year in its dredging activities primarily because of the completion of a succession of major dredging contracts at Port Hedland in Western Australia. These projects had kept our equipment continuously in use over a period of 5½ years without the costly move-in and move-out and idle time which are characteristic of dredging. The dredge *Alameda* was assigned to this work and at year's end was under tow to Japan for drydocking before resuming operations for the 21½ months remaining under a 5-year lease to Japan Industrial Land Development Company. The company's other major dredge, *Franciscan*, was idle early in the year but is presently working on a harbor project in Long Beach, California. Dredging activities should be profitable in 1971 but cannot be expected to repeat the high level of performance in 1970.

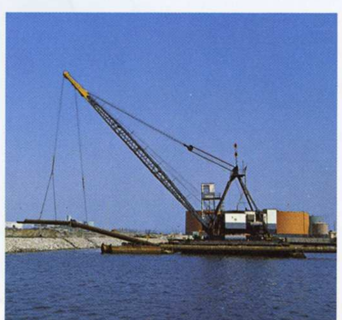
Earnings from commercial construction performed by our limited partnership with Haas and Haynie Corporation showed improvement, reflecting the larger volume and value of work, amounting to approximately $60 million, put in place during the year. Major projects completed during 1970 included the General Electric Transformer Manufacturing Plant at Shreveport, Louisiana; the Kaiser Aluminum Research and Development Facility at Pleasanton, California; the 32 story Mutual Benefit office building in San Francisco; and the McDonnell Douglas Final Assembly building for the DC 10 aircraft at Long Beach, California. Still under construction at the year end were the Superbay Hangar for American Airlines at Los Angeles; a 37 story office building in San Francisco for West Coast Life Insurance Company; a hotel and hospital in Honolulu; and other commercial structures.

The Superbay Hangar is a unique and impressive project. Covering an area equal to five football fields it will house four B 747 aircraft at one time. Its roof is composed of 16 hyperbolic sections which cantilever 230 feet from a central core. Each module weighs 187 tons and is assembled on the ground and raised into position.

As of October 31, 1970 the construction backlog of the limited partnership amounted to approximately $49 million, not including a $35 million project postponed pending disposal of issues delaying a redevelopment program in San Francisco.

We expect construction earnings in 1971 to fall off sharply from the exceptional results recorded in 1970.

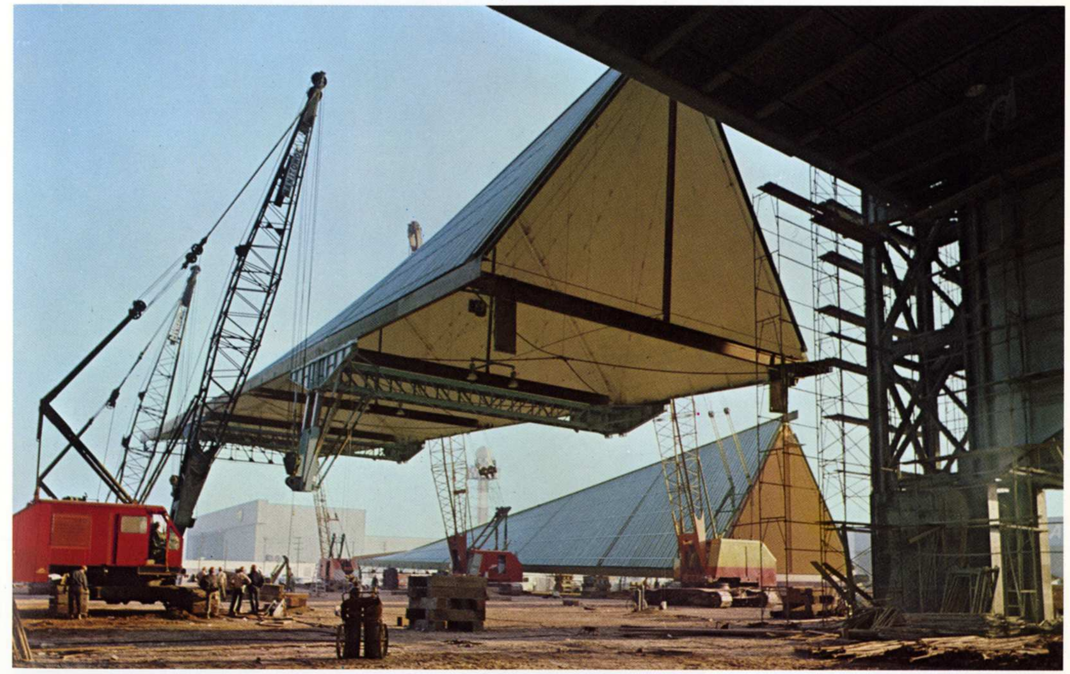


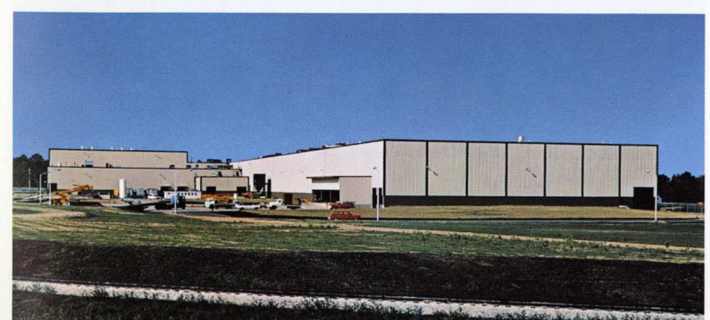


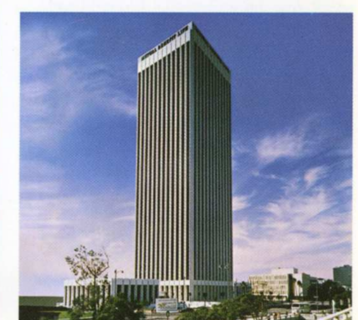
187 ton roof module for superbay hangar, being hoisted into position by four cranes, will cantilever 230 feet from central core.

General Electric Transformer Manufacturing Plant, Shreveport, Louisiana.

Mutual Benefit Life Insurance Company office building, Los Angeles, built by Haas & Haynie.







LAND DEVELOPMENT

Entrance to Fontana East Apartment which overlooks San Francisco Bay and the Golden Gate.

Serene beauty and superb golf at Pauma Valley.

Shopping center mall at Alameda South Shore attracts many buyers.

Activities of this division and its profitability were severely restricted during 1970 because of a sluggish real estate market which was beset by the scarcity and high cost of mortgage financing and unsettled economic conditions. We anticipate that this situation will continue until the current readjustment has more nearly run its course. Because of the unpromising market outlook and our need for capital funds in other ventures we have not made new land acquisitions or substantial expenditures to develop acreage already held. As a consequence real estate sales in recent years have been made out of our inventories of properties previously prepared for sale and that inventory is now at a low level.

In the year just completed the Fontana East apartment building in San Francisco was converted to cooperative corporation ownership, and we expect no difficulty in disposing of our remaining interest because of the exceptional quality of the property and the spectacular view which it commands. Plans are progressing for development of the 914 acres comprising the Bay Farm Island project in Alameda, California and preliminary work may get under way by early 1972. South Shore Center, the company's shopping center in Alameda, continued its growth in terms of both new structures and gross retail sales. At our Pauma Valley, California project 36 condominium units, 18 new fairway lots and 15 small ranchos will be added in 1971 to meet the needs of the growing membership of Pauma Valley Country Club. Elsewhere in Utah's inventory of residential and industrial properties sales are at a reduced pace pending the resolution of uncertainties affecting the national economy.

FINANCIAL COMMENT

The growth enjoyed by Utah, coupled with the planned expansion of mining activities, has required optimum usage of funds on hand and has had important implications with respect to the maintenance of the proper balance and composition of the company's assets, liabilities, and stockholder funds.

During the fiscal year interest earned from the investment of temporarily idle company funds, accumulated in anticipation of expenditures on authorized capital budgets, approximated $3.1 million.

Several steps were taken for the purpose of strengthening the company's equity base in anticipation of balanced financing of the substantial additional investments in new or expanded mine projects:

- A new issue of 5 million shares, representing a 10% equity in Utah Development Company, was approved by the parent company. These shares were acquired by Utah Mining Australia Limited, an Australian holding company, and $19,950,000 in cash was received by Utah Development Company in payment for the newly issued stock.
- The outstanding 5% Convertible Debentures, due November 1, 1992, were called for redemption, effective October 23, 1970. $3.8 million face value of this issue had been converted prior to the date of call. Substantially all of the $21.2 million face value of the debentures outstanding when the call was made were converted into 658,892 shares of the company's common stock, and only $15,000 face value was redeemed for cash.

During the year there were also substantial conversions of the 5¾% Subordinated Guaranteed Debentures, due September 15, 1983, of Utah International Finance Corp., although this issue had not been called. These debentures are likewise convertible into shares of Utah Construction & Mining Co., and of the $30 million face value originally issued in 1968, $15.04 million had been converted as of October 31, 1970, leaving $14.96 million outstanding at the year end.

Conversions during the 1970 fiscal year resulted in an increase of 1,178,206 shares, having a par value of $2,356,412, in the company's common stock outstanding, and an increase in capital surplus of $36,604,895 was recorded.

The paid-in capital arising from the issue of the new stock in Utah Development Company and the conversion of debentures, together with retained earnings, resulted in an increase in stockholders' total book equity from approximately $130 million at the beginning of the fiscal year to in excess of $207 million at the close of the year, a growth greater than that realized by Utah during the first 66 years of its existence.

Commitments have been received from banks and institutions for a combination of short-period, medium-term, and long-term financing, aggregating approximately $165 million. Such commitments from financial institutions will permit the company to avail itself of funds from Eurodollar borrowings, Canadian and Australian bank loans, and institutional lending, as well as borrowings from domestic banks.

As of November 1, 1970 the balance of capital funds remaining to be expended by Utah and Utah Development Company in the development of new mining projects and the expansion of existing mines amounted to $188 million. Of this balance $124 million is budgeted for expenditure in 1971, $51 million in 1972 and $13 million in 1973 when the program currently in progress is scheduled for completion.

Cash generation from operations is expected to be more than adequate to service dividends to stockholders, supply the balance of funds required for the investment program, and finance other cash requirements of the company's business.

Beginning September 8, 1970, Utah's common stock was listed for trading on the Pacific Coast Stock Exchange. The stock is also traded on the New York Stock Exchange where it has been listed since April 2, 1969. Broader and more convenient marketability for the company's shares, especially for the benefit of the substantial proportion of our shareholders who reside in the Western states, is provided by the additional listing on the Pacific Coast Stock Exchange.

As of the close of the 1970 fiscal year (October 31) there were 14,100,015 shares of the company's common stock outstanding. The stock was held by 6,095 shareholders residing in 49 states, the District of Columbia and 15 foreign countries. The increase in the number of shareholders from 5,501 the year before reflects primarily the conversions of debentures during 1970.

CONSOLIDATED BALANCE SHEETS

Assets

	October 31 1970	1969
Current Assets:		
Cash	$ 7,072,311	$ 7,674,257
Marketable securities, at cost which approximates market	11,543,130	32,512,817
Accounts and notes receivable	9,210,251	10,696,432
Inventories, at the lower of average cost or market —		
Mining	9,636,631	7,977,639
Dredging	922,442	1,079,152
Prepaid expenses	4,931,070	2,074,463
Total current assets	$ 43,315,835	$ 62,014,760
Investments:		
Affiliated companies (Note 1)	$ 84,852,532	$ 78,806,546
Equity in joint ventures and limited partnership	2,616,907	2,068,741
Land and real estate —		
Real estate held for development and sale	34,740,876	33,461,157
Land held for investment	2,010,558	2,265,379
Improved real estate held for investment, less accumulated depreciation of $3,022,526 in 1970 and $2,717,541 in 1969	10,420,085	8,471,268
	$134,640,958	$125,073,091
Other Assets:		
Long-term receivables	$ 46,017,476	$ 26,192,057
Other	1,878,182	3,108,443
	$ 47,895,658	$ 29,300,500
Equipment and Facilities, at cost:		
Mining lands, leases and development costs	$ 14,610,337	$ 13,642,541
Mining equipment and facilities	82,904,037	63,948,574
Mining facilities under construction and pre-mine development	74,100,469	13,542,187
Dredging equipment and facilities	5,645,318	5,340,723
Other	1,759,422	4,009,037
	$179,019,583	$100,483,062
Less — Accumulated depreciation and depletion (Note 6)	44,195,993	36,270,024
	$134,823,590	$ 64,213,038
	$360,676,041	$280,601,389

The accompanying notes are an integral part of these balance sheets.

Liabilities and Capital

	October 31 1970	1969
Current Liabilities:		
Bank loans, notes and contracts payable, and current portion of long-term liabilities	$ 5,457,313	$ 3,491,739
Accounts payable	10,875,838	4,412,361
Accrued liabilities	7,676,398	6,784,418
Accrued income taxes	5,500,000	5,121,847
Total current liabilities	$ 29,509,549	$ 19,810,365
Long-term Liabilities, net of current portion (Notes 3 and 4):		
Unsecured	$ 72,279,000	$ 92,864,000
Assessment liens, purchase money obligations and other notes, secured only by related land and real estate	23,869,912	23,616,546
	$ 96,148,912	$116,480,546
Reserves and Other:		
Deferred income taxes (including a reserve for taxes of $6,089,779 in 1970 and $5,252,797 in 1969, payable upon distribution of earnings of affiliated companies and subsidiaries)	$ 20,631,506	$ 10,672,076
Other	3,698,109	4,083,253
	$ 24,329,615	$ 14,755,329
Minority Shareholders' Equity in Utah Development Company, a subsidiary	$ 3,192,258	$ —
Contingent Liabilities and Commitments (Note 8)		
Stockholders' Equity:		
Preferred stock, without par value — Authorized — 1,000,000 shares; issued — none	$ —	$ —
Common stock, par value $2 per share (Notes 3 and 9) — Authorized — 20,000,000 shares		
Issued—14,100,215 shares in 1970 and 12,917,142 shares in 1969	28,200,430	25,834,284
Capital surplus	54,384,688	347,475
Earned surplus, including equity in undistributed earnings of affiliates (Notes 1 and 4)	124,912,307	103,375,108
Treasury stock, at cost —200 shares	(1,718)	(1,718)
	$207,495,707	$129,555,149
	$360,676,041	$280,601,389

The accompanying notes are an integral part of these balance sheets.

STATEMENT OF CONSOLIDATED INCOME

Utah Construction & Mining Co. and Subsidiaries

	Years Ended October 31 1970	1969
Income:		
Gross revenues from operations (Note 7)	$ 90,960,597	$ 68,949,250
Costs and expenses	60,945,760	49,199,582
Gross profit from operations	$ 30,014,837	$ 19,749,668
Equity in net income of —		
Affiliates (Note 1)	12,938,229	13,550,618
Joint ventures (proportionate share of gross revenue approximately $40,000,000 for 1970 and $23,000,000 for 1969) (Note 7)	5,114,358	1,929,491
Interest	5,832,497	5,255,963
Other, net	126,730	(77,875)
Gross profit and other income	$ 54,026,651	$ 40,407,865
Expenses:		
General and administrative	$ 4,018,563	$ 3,826,595
Employees' retirement plan provision	650,000	575,000
Interest (Note 3)	3,946,912	5,500,842
Income, after income taxes, applicable to minority interests	451,911	—
	$ 9,067,386	$ 9,902,437
Income before income taxes, discontinued operations and extraordinary item	$ 44,959,265	$ 30,505,428
Provision for income taxes (Note 5)	14,686,000	6,134,000
Income before discontinued operations and extraordinary item	$ 30,273,265	$ 24,371,428
Income from discontinued operations (net of income taxes) (Note 10)	—	507,020
Income before extraordinary item	$ 30,273,265	$ 24,878,448
Extraordinary item (net of income taxes) (Note 10)	—	1,844,291
Net income	$ 30,273,265	$ 26,722,739
Earnings per common share (Note 2):		
Income before discontinued operations and extraordinary item	$ 2.27	$ 1.89
Income from discontinued operations	—	.04
Extraordinary item	—	.14
Net income	$ 2.27	$ 2.07
Earnings per common share assuming full conversion of convertible debentures (Note 2):		
Income before discontinued operations and extraordinary item	$ 2.11	$ 1.76
Income from discontinued operations	—	.04
Extraordinary item	—	.13
Net income	$ 2.11	$ 1.93

The accompanying notes are an integral part of this statement.

STATEMENT OF CONSOLIDATED SURPLUS AND COMMON STOCK

Utah Construction & Mining Co. and Subsidiaries

Years Ended October 31, 1970 and 1969

	Earned Surplus (Notes 1 and 4)	Capital Surplus	Common Stock Shares (Notes 3 and 9)	Common Stock Amount
Balance, November 1, 1968	$ 98,037,888	$ 3,018,371	4,304,237	$ 8,608,474
Transactions in connection with:				
Common stock issued to stockholders in a three-for-one stock split effected in the form of a stock dividend	(14,197,680)	(3,019,308)	8,608,494	17,216,988
Add:				
Net income	26,722,739	—	—	—
Excess of consideration received over cost of treasury stock transferred to employees as restricted stock bonuses	—	200,436	—	—
Common stock issued upon conversion of debentures	—	147,976	4,411	8,822
Deduct — Cash dividends of $.56 per share	(7,187,839)	—	—	—
Balance, October 31, 1969	$103,375,108	$ 347,475	12,917,142	$ 25,834,284
Add:				
Net income	30,273,265	—	—	—
Common stock issued upon conversion of debentures	—	36,604,895	1,178,206	2,356,412
Common stock issued to employees as restricted stock bonuses	—	222,665	4,867	9,734
Excess of consideration received from issue of 10% equity interest in subsidiary company over net book value of such interest	—	17,209,653	—	—
Deduct — Cash dividends of $.65 per share	(8,736,066)	—	—	—
Balance, October 31, 1970	$124,912,307	$ 54,384,688	14,100,215	$ 28,200,430

The accompanying notes are an integral part of this statement.

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS

Utah Construction & Mining Co. and Subsidiaries

	Years Ended October 31 1970	1969
Funds were provided from:		
Net income	$ 30,273,265	$ 26,722,739
Add—Depreciation and depletion, expenses not requiring an expenditure of funds—		
Mining and other	6,814,700	6,844,882
Discontinued operations	—	1,448,146
	$ 37,087,965	$35,015,767
Increase in long-term liabilities, including an increase of $20,796,000 payable to banks in 1970	28,888,269	908,954
Sale of construction equipment, investment in joint ventures and other noncurrent assets	1,555,523	5,116,185
Proceeds from issuance of 10% equity interest in subsidiary company	19,950,000	—
Decrease in other assets	682,095	—
Total funds provided	$ 88,163,852	$ 41,040,906
Funds were used for:		
Increase in net investment in—		
Long-term receivables	$ 19,825,419	$ 9,311,205
Affiliated companies	6,045,986	9,036,495
Land and real estate	3,301,384	2,030,862
Mining lands, leases and development costs	1,029,797	417,073
Mining equipment and facilities	19,772,089	12,792,639
Mining facilities under construction and pre-mine development	57,366,877	9,100,067
Other equipment and facilities	484,343	2,786,130
Other assets	—	1,207,680
Cash dividends paid to stockholders	8,736,066	7,187,839
Total funds used	$116,561,961	$ 53,869,990
Net decrease in working capital	$(28,398,109)	$ (12,829,084)

The accompanying notes are an integral part of this statement.

AUDITORS' REPORT

To the Shareholders and Board of Directors,
Utah Construction & Mining Co.:

We have examined the consolidated balance sheets of Utah Construction & Mining Co. (a Delaware corporation) and subsidiaries as of October 31, 1970 and 1969, and the related statements of income, surplus and common stock, and sources and applications of funds for each of the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of affiliated companies (see Note 1 to the consolidated financial statements) but were furnished with reports of other public accountants thereon.

In our opinion, based upon our examination and the reports of other public accountants, the accompanying consolidated balance sheets and statements of income, surplus and common stock, and sources and applications of funds present fairly the financial position of Utah Construction & Mining Co. and subsidiaries as of October 31, 1970 and 1969, and the results of their operations and the sources and applications of funds for each of the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the two years.

ARTHUR ANDERSEN & CO.

San Francisco, California
December 4, 1970

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1970

NOTE 1. Principles of Consolidation

The consolidated financial statements include the accounts of Utah Construction & Mining Co. and all subsidiary companies ("the Company"), after elimination of significant inter-company items and transactions. In addition, the statements include the Company's equity in the net earnings of affiliated companies in which the Company does not have a majority interest. These affiliates are in the nature of joint venture corporations and therefore the Company's equity in these companies has been treated in the same manner as equity in joint venture partnerships. Equity in such earnings is recorded based upon the affiliates' audited financial statements as of their most recent fiscal year-end and upon subsequent interim reports submitted by the respective companies. An appropriate provision for related income taxes payable on such earnings when distributed has been made in the accompanying financial statements.

The following is a summary of the unaudited consolidated balance sheets of Marcona Corporation ("Marcona"), the Company's most significant affiliate (46% equity owned), at October 31, 1970 and 1969:

	1970	1969
Current assets	$ 59,077,000	$ 49,738,000
Other assets	166,931,000	143,663,000
	$226,008,000	$193,401,000
Current liabilities	$ 30,343,000	$ 26,958,000
Long-term liabilities	49,369,000	32,600,000
Stockholders' equity	146,296,000	133,843,000
	$226,008,000	$193,401,000

The Company's recorded share of the stockholders' equity shown above is, as of October 31, 1970, $58,675,000, including its investment cost of $4,801,000. Marcona's consolidated net income (unaudited) was $19,953,000 for the year ended October 31, 1970 and $21,345,000 for 1969. The Company's recorded share of this income, after an exclusion for taxes payable by Marcona on distribution of earnings by its subsidiaries for which no reserve has been provided on its books, and a further provision for distribution taxes payable by the Company upon distribution of earnings, was $6,733,000 in 1970 and $8,004,000 in 1969. Historically, depending upon the then circumstances, approximately forty to sixty percent of Marcona's net income has been derived from its mining operations in Peru. Approximately one-half of the stockholders' equity in Marcona is represented by net assets located in Peru.

During the past two years, the Peruvian government has nationalized certain industries and has imposed certain currency restrictions. There have been no proposals to nationalize Marcona's operations; currency restrictions have not adversely affected operations or dividend policies.

The composition of the Company's equity interest in affiliated companies, at October 31, 1970 and 1969, is as follows:

	1970	1969
Equity in undistributed earnings of affiliates—		
Included in earned surplus	$63,052,822	$57,708,412
Included in liability for deferred income taxes, payable upon distribution of earnings	5,782,706	5,210,297
	$68,835,528	$62,918,709
Cost of investment	16,017,004	15,887,837
	$84,852,532	$78,806,546

The accounts of foreign branches, subsidiaries and affiliates have been translated to U.S. dollars at the exchange rates in effect at the respective year-ends. Fluctuations in these exchange rates had no significant effect upon the accompanying consolidated financial statements.

NOTE 2. Earnings Per Share

Per share amounts have been calculated based on the weighted average on a monthly basis of shares outstanding during each year.

Net income per share assuming full conversion of the convertible debentures gives effect to the dilution which would have resulted from conversion of the 5¾% Subordinated Guaranteed Debentures, and in 1969, the 5% Convertible Subordinated Debentures. For purposes of this computation, reported earnings were increased by $311,000 in 1970 and $1,250,000 in 1969, the amounts of the related interest on such debentures charged against income, net of applicable income taxes.

NOTE 3. Long-Term Liabilities

Long-term liabilities at October 31, 1970 and 1969, consist of the following:

	1970	1969
Unsecured—		
5½% notes payable to insurance company, due in varying installments from 1971 to 1986	$33,500,000	$ 35,000,000
5% convertible subordinated debentures issued November, 1967, and due in 1992	–	24,949,000
5¾% subordinated guaranteed debentures issued September, 1968, and due in 1983	14,959,000	29,891,000
7¼%-7½% notes payable to banks, due in varying installments from 1973 to 1975	8,820,000	3,024,000
Eurodollar notes—9¾% at October 31, 1970 (interest 1% above average Eurodollar rate), due 1976	15,000,000	–
	$72,279,000	$ 92,864,000
Assessment liens, purchase money obligations and other notes*—		
5%-7% assessment liens, due in varying installments to 1990	$19,186,507	$ 17,887,664
4%-8½% notes and contracts payable, due in varying installments to 1987	3,695,484	3,661,491
4%-5½% purchase money obligations, due in varying installments to 1973	987,921	2,067,391
	$23,869,912	$ 23,616,546
	$96,148,912	$116,480,546

*Secured only by the related land and do not represent claims against other corporate assets.

In September, 1970, the 5% Convertible Subordinated Debentures due November 1, 1992, were called for redemption on October 23, 1970. Accordingly, none of these debentures are shown as outstanding as of October 31, 1970.

The 5¾% Subordinated Guaranteed Debentures of Utah International Finance Corp. (a wholly owned subsidiary) due September 15, 1983, are convertible into common stock of the parent company at a price of $37.00 per share, subject to adjustment under certain conditions. The debentures may be redeemed prior to maturity by payment of a premium beginning in 1973. At October 31, 1970, 404,396 shares of stock were reserved for issuance upon conversion of these debentures.

The Company capitalizes financing costs on identifiable new borrowings made to finance development of mining projects not yet in operation. Such capitalized costs, which amounted to $1,488,721 in 1970 and $103,019 in 1969, will be amortized over the productive lives of the properties.

NOTE 4. Surplus Restriction

The Company's long-term loan agreements with lending institutions contain restrictive provisions on certain payments unless the Company has adequate consolidated earned surplus (as defined). Such provisions include limitations on the payment of cash dividends and on the purchase or redemption of outstanding capital stock and convertible debentures. Consolidated earned surplus in the amount of $70,893,000 was free of such restrictions at October 31, 1970.

NOTE 5. Provision for Income Taxes

A substantial portion of the Company's income is derived from dividends, earnings from mining operations (with a resulting depletion allowance in excess of cost depletion, as permitted by the United States Internal Revenue Code), and profit from the sale of investments, all of which are taxed at rates lower than those applicable to ordinary income. The Company has followed the practice of deferring the amount of the investment credit and amortizing it over the average lives of the respective assets. The investment credit has no significant effect upon the statement of consolidated income.

Provisions for income taxes are classified in the statement of consolidated income as follows:

	1970	1969
Provision for income taxes	$14,686,000	$6,134,000
Income taxes applicable to–		
Income from discontinued operations	–	607,885
Extraordinary item	–	818,809
	$14,686,000	$7,560,694

Amounts included in the provisions for income taxes which will not be due and payable until future periods are $8,765,000 for 1970 and $2,439,000 for 1969, including $1,224,000 and $1,116,000 for taxes payable upon distribution of undistributed earnings of affiliates.

NOTE 6. Equipment and Facilities

Dredging and mining equipment and facilities are depreciated, depleted or amortized over their estimated useful lives by use of the unit-of-production, straight-line, or declining-balance methods, as applicable. Where amounts deducted for tax purposes exceed those recorded for book purposes, appropriate provision has been made in the accounts for the income taxes thereby deferred.

NOTE 7. Revenue

The Company reports income from its dredging activities (including those which are performed by joint ventures) and the limited partnership engaged in commercial construction on a percentage-of-completion basis. Income from joint ventures engaged in land development activities is reported on the same basis.

A substantial portion of the Company's revenue results from sales to Japanese companies. In 1970, such sales were approximately one-half of total revenue. In the future, sales to Japan are expected to become more significant. A substantial portion of the output of certain mining projects now being developed is expected to be sold to Japanese industry. In addition, approximately two-thirds of Marcona's consolidated revenue (without duplication of Mount Goldsworthy ore sales) was from Japanese sources in the twelve months ended October 31, 1970.

NOTE 8. Contingent Liabilities and Commitments

Contingent liabilities include the usual liability of contractors for the performance and completion of both Company and joint venture contracts. The Company has agreed to purchase a note (on demand after July 31, 1971) secured by a deed of trust on certain property owned by an affiliate in which the Company has a fifty percent interest. The balance on such note is approximately $3,700,000 as of October 31, 1970.

The Company has started the development or expansion of mining projects, which, in the aggregate, will require an investment of approximately $287 million, of which amount about $99 million had been expended as of October 31, 1970.

Subsidiaries have obtained commitments permitting additional borrowings of approximately $125 million from lending institutions without the United States, which borrowings, if made, would be guaranteed by the parent company. The Company has also obtained commitments in its favor of approximately $40 million. In the opinion of the management of the Company, proceeds from borrowings from lending institutions together with current working capital and cash generated internally are sufficient to fund mining projects now underway or heretofore approved and finance other cash requirements of the Company's business.

Peruvian income tax deficiencies have been proposed against an affiliate of the Company for the taxable years 1957 and 1958. The deficiencies are being contested by the affiliate and a Peruvian Civil Court has ruled in favor of the affiliate, which decision has been appealed by the government authorities. The affiliate has advised the Company that it considers it unlikely that the Civil Court decision will be reversed. In the event of an adverse decision, any resulting tax liability of the affiliate, in the Company's opinion, would not have a material effect on the accompanying financial statements, and no provision therefore has been made.

The Company has a lease agreement expiring in 1980 for the rental of its home office. The annual base rental under this agreement varies from $260,000 for 1971 to $270,000 for the last five years of the lease. The Company also has a long-term lease agreement for equipment requiring payments of approximately $420,000 annually for a remaining period of three years.

The parent Company's United States federal income tax returns have been examined through 1966 and tax deficiencies paid.

NOTE 9. Reserved Common Stock

120,133 shares of common stock were reserved at October 31, 1970, for future issuance to officers and key employees as restricted stock bonuses over an indefinite number of years.

NOTE 10. Discontinued Operations

In 1969, the Company sold substantially all of its construction assets and business to a wholly owned subsidiary of the Fluor Corporation ("Fluor"). The total sales price was $10,753,000, on which the Company recorded a net profit of $1,844,291 after applicable income taxes of $818,809. Income from discontinued operations in 1969 was $507,020, after applicable income taxes of $607,885. Such operations included operations sold to Fluor, sand and gravel business, and nonsponsored heavy construction joint ventures.

TEN YEAR COMPARISON (CONSOLIDATED)

Utah Construction & Mining Co. and Subsidiaries

In thousands except per share amounts and number of shareholders.

Years Ended October 31:	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Gross Revenue[1]	$ 90,961	68,949	63,682	51,419	36,159	32,536	33,874	34,974	35,771	28,038
Net Income:										
Before Income Taxes	$ 44,959	34,283[2]	26,081	21,143	17,975	14,551	8,439	7,705	11,871	12,651
After Income Taxes	$ 30,273	26,723[2]	19,944	16,543	13,175	11,016	7,292	7,085	9,321	9,774
Per Share after Income Taxes[3]	$ 2.27	2.07	1.55	1.28	1.02	.85	.57	.55	.72	.76
Dividends Paid:										
Cash	$ 8,736	7,188	6,237	5,590	4,730	4,300	4,085	3,873	3,753	3,376
Common Stock		200%						100%	2%	2%
Per Share[3]	$ .65	.56	.48	.43	.37	.33	.32	.30	.29	.26
Common Stock:										
Shares Outstanding (Net of Treasury Shares)	14,100	12,917	4,302	4,300	4,300	4,300	4,300	4,302	2,152	2,111
Number of Shareholders	6,095	5,501	4,468	4,429	4,265	3,796	3,675	3,343	2,835	2,633
Total Assets (Less Applicable Reserves)	$360,676	280,601	257,798	181,964	162,040	138,696	123,693	124,192	125,783	109,624
Working Capital	$ 13,806	42,204	55,033	9,820	10,696	6,622	11,970	12,691	13,910	10,416
Long-term Debt	$ 96,149	116,481	114,611	52,880	45,282	32,125	32,941	36,984	39,775	33,774
Stockholders' Equity:										
Net Worth	$207,496	129,555	109,606	95,755	84,802	76,356	69,640	66,480	63,324	57,756
Net Worth per Share[3]	$ 14.72	10.03	8.49	7.42	6.57	5.92	5.40	5.15	4.90	4.47
Note (1) Gross Revenue from Discontinued Operations not included.	$ —	34,890	54,586	61,882	62,294	56,781	26,016	42,782	48,523	53,053

Note (2) 1969 Net Income includes $2,663,000 before income taxes and $1,844,000 after income taxes which is attributed to gain on sale recorded as an extraordinary item.

Note (3) Per share amounts for all years have been calculated after giving effect to the stock dividends of 2% paid in 1961 and 1962, 100% in 1963 and 200% in 1969.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Marriner S. Eccles, Chairman
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Alf E. Brandin
Val A. Browning
Lawrence T. Dee
George S. Eccles
William R. Kimball, Jr.
Edmund W. Littlefield
Arjay Miller
Shepard Mitchell
Albert L. Reeves
Paul L. Wattis
Alexander M. Wilson

EXECUTIVE COMMITTEE

Marriner S. Eccles, Chairman
Edmund W. Littlefield
Alf E. Brandin
Albert L. Reeves
Alexander M. Wilson

OFFICERS

Edmund W. Littlefield, President and General Manager
Alexander M. Wilson, Executive Vice President
Albert L. Reeves, Senior Vice President and Secretary
Orville L. Dykstra, Financial Vice President
Alf E. Brandin, Senior Vice President
Edwin C. DeMoss, Senior Vice President
Charles E. McGraw, Senior Vice President
Joseph K. Allen, Vice President
John S. Anderson, Vice President
Weston Bourret, Vice President
W. Drew Leonard, Vice President and Controller
Charles K. McArthur, Vice President
Hollis G. Peacock, Vice President
Charles T. Travers, Vice President
Keith G. Wallace, Vice President
James T. Curry, Treasurer

TRANSFER AGENTS

Bankers Trust Company, New York, New York
Crocker-Citizens National Bank, San Francisco, California
First Security Bank of Utah, N.A., Salt Lake City, Utah

REGISTRARS

First National City Bank, New York, New York
First Security State Bank, Salt Lake City, Utah
Wells Fargo Bank, San Francisco, California

HEAD OFFICE

550 California Street, San Francisco, California 94104

ANNUAL MEETING

Tuesday, February 9, 1971, 2:00 PM
The Penthouse Board Room, Wells Fargo Bank
420 Montgomery Street, San Francisco, California